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REPORT ON A NATIONAL TRAINING WORKSHOP FOR FINANCIAL MANAGEMENT OFFICIALS OF THE GOVERNMENT OF THE REPUBLIC OF MALAWI

ON

IMPROVEMENT IN TAXATION POLICIES, SYSTEMS ADMINISTRATION, AND BUDGETARY MANAGEMENT IN MALAWI

ZOMBA - MALAWI
11-15 August, 1986

Organized by ECA in collaboration with the Malawi Department of Personnel Management and Training, Chancellor College, Zomba, Malawi and the European Economic Community (EEC)

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I. Organisation

1. The National Training Workshop on Improvement in Taxation Policies, Systems and Administration and Budgetary Management in Malawi was organized by the United Nations Economic Commission for Africa (UNECA), in collaboration with Malawi, Department of Personnel Management and Training Office of the President and Cabinet, and the Chancellor College, Zomba, Malawi. The workshop was funded by the European Economic Community (EEC).

2. The workshop was organized for senior government financial management officers of Malawi. The Curriculum and topics covered focussed attention on the need to enhance the skills of Malawi government financial management officials in the field of mobilization of resources for effective national development and the formulation of a training policy for taxation officials of the Republic of Malawi.

II. Date and venue

3. The National Training Workshop was held from 11-15 August, 1986 at the Chancellor College, Zomba. The Chancellor College also provided secretarial services and other facilities.

III. Attendance 1/

4. The resource personnel provided by ECA arrived in Zomba on 10 August 1986 and directed the workshop from 11 to 15 August 1986. Two lecturers from the Chancellor College acted as local resource personnel. Sixteen senior government officials drawn from various central government ministries and departments as well as from the local government participated in the workshop.

IV. Objectives

5. The national training workshop was aimed at providing the participants with guidelines to:

(a) improve taxation policy, legislations systems and administration and budgetary management and review the training needs and facilities for the taxation officials of Malawi.

(b) provide a forum for the mutual exchange of ideas and work experience amongst the participating senior government officials drawn from Central Government Ministries and Departments and also from the local government.

V. Methodology

6. The instructional approach adopted composed of background papers prepared and presented by ECA and local resource personnel and the participants 2/. Presentations were made in the morning sessions followed by plenary discussions in the afternoons. The last two days of the workshop were reserved for syndicate groups discussions and for the presentation of group reports 3/ to the plenary session for reviews and appraisal of the summary of findings and conclusions.

1/ see annex I of the report
2/ see annex II of the report
3/ see annex III of the report

VI. Official opening

7. The National Training Workshop was officially opened on 12 August 1986 by Mr. D. S. Katenola M.P., Hon. Minister of Finance on behalf of His Excellency the Life President Mawazi, Dr. H. Kamuzu Banda and the Government of the Republic of Malawi. In his opening speech, the Hon. Minister of Finance welcomed the resource personnel from the United Nations Economic Commission for Africa and pointed out that, according to the information at his disposal, the workshop was the first of its kind to be conducted in Malawi and called on the participants to make the most out of the opportunity. He further stressed the importance of taxation policy as a vital tool in a country's economic development, coming, as it were, between the setting of social and economic development plan's objectives and the achievement of those objectives. In this connection, the Hon. Minister emphasized the need for clarity to be made between both the development and taxation policies. He pointed out that tax legislation formulation, enactment and administration was a very long process which ought to be seen as a means by which set objectives were achieved. He expressed the view that precaustionary measures ought to be taken into account when factors necessitating new legislations or changes in existing legislations were being considered in order to avoid absurd results. He called for sound and improved administration that would help to minimize ad-hoc changes in taxation policies.

8. Turning to budgetary management, the Hon. Minister reiterated his government's strongest belief in budgetary control and informed the participants that the Malawi Government was considering a new format of presenting the government budget, which was intended to be functional, laying more emphasis on programmes analysis and monitoring and where feasible, assessing the return of the incurred expenditure. The new format constituted a shift from the conventional approach based on inputs with bias to objects of expenditure. The Hon. Minister then invited the participants to come up with new ideas on the proposed transformation of the budget system.

9. In conclusion, the Minister expressed his profound thanks and appreciation to the Executive Secretary of ECA for having provided the necessary technical expertise and also to the European Economic Community (EEC) for providing financial assistance.

10. On the same ocassion Mr. P. J. Bossi (ECA) thanked, on behalf of the Executive Secretary of ECA, the Government of Malawi for the firm support which culminated in the successful mounting of the national workshop. He informed the gathering that UNECA considered beneficial the organization in collaboration with member States, of national workshops in the member States themselves. This approach permited effective co-operation with national institutions, departments and local resource personnel and made deliberation of issues to be within the national environment.

11. Mr. Bossi further informed the gathering that at the particular time when African countries were facing unprecendented economic and financial crisis, it was UNECA's belief that national taxation policies and systems should be reviewed to establish whether changes were needed in them since taxation systems were powerful instruments in the hands of the governments in managing their economies.

He further expressed the hope that recommendations from the workshop would receive the usual attention of the Malawi government ministries and departments concerned.

VII. Official closing

12. The National Training Workshop was officially closed by the Commissioner of Taxes, Mr. G. D. Chimombo on 15 August 1986. In his closing speech, Mr. Chimombo commended the participants for their efforts, dedication, active partic pation and meaningful deliberations and on the conclusions reached on the topics covered. He reminded participants that throughout the discussions, there was repeated reference to the need to ensure that taxation policy was in harmony with the country's development plans, both for social and economic goals.

13. He further observed that developing countries were experiencing worsening economic situations, and that such a state of affairs coupled with scarcity of resources in such countries, called for a better management and a more efficient allocation of resources. In this regard, he stressed the need for more national workshops to enhance the knowledge and skills of the officials in order to improve their administrative competence which was vital for constantly reviewing taxation policies, legislations, systems and administrations and budgetary systems.

VIII. Summary of recommendations

14. The following recommendations were made by the participants in the workshop.

Taxation policy

(a) The workshop recommended that the Department of Economic Planning and Development should monitor the relationship between the goals of national development plans or programmes and the taxation objectives through comprehensive economic analysis 4/.

(b) The workshop recommended that a Standing Taxation Review Committee be established in Malawi to co-ordinate and monitor tax incentives 5/.

(c) The workshop recommended that special tax incentives in the form of reduced tax rates, should be granted to small, local and labour-intensive companies 6/.

Taxation legislations

(a) The workshop recommended that a legal unit be established within the Tax Department in Malawi and that qualified tax lawyers be recruited 7/.

(b) The workshop recommended that in the process of the formulation of taxation legislations or undertaking tax reforms measures, there should be wider consultations and openness on the part of the Treasury 8/.

Tax Reform Planning

(a) The workshop recommended that a study be undertaken on pragmatic approach on Tax Reform Planning on the basis of which guidelines could be formulated for future tax reforms proposals 9/.

4/, 5/, 6/, 7/, 8/ & 9/ see paragraphs 28, 31, 33, 46 47 & 79 respectively.

The tax system

The workshop recommended that the tax system in Malawi should be constantly reviewed 10/.

Tax administration

(a) The workshop recommended that there should be improvement in the staffing position in the Tax Department in Malawi 11/.

(b) The workshop suggested the consideration of decentralization in future of tax-payer-service.

Budgetary management

The workshop strongly felt that the suggested budget format (reforms) by the World Bank deserved consideration for future re-structuring of Malawi government Budget.

Training policy

Regarding training policy, the workshop made the following recommendations:

(a) There should be identification of the areas of need for training, careful design of the curriculum selection of candidates, consideration of academic background and the interests of the individuals.

(b) The government ministries/department should have their own trainers in order to meet their internal training needs, and that such trainers should be available as guest lecturers at other established training centres.

(c) That reward should be accorded to successful officers as motivation and attraction to ensure the retention of such officers.

(d) That the design of curriculum at the training college level should take into account the training needs of the departments.

(e) That training should be at all levels and that management and leadership skills development should be emphasized for senior supervisory levels 12/.

10/ & 11/ See paragraphs 99(a) & (b).

12/ See paragraphs 58-59.

IX. Summary of discussion of workshop topics

A. The general concepts and issues in taxation policies, systems and administration

(i) The objectives and principles of taxation

15. The aim of the above topic was to give an overview of the general purpose of the objectives of taxation and their relation with national development needs. During its discussion, it was pointed out that broadly, the objectives of taxation could include the following:

- the provision of revenue to the public authority,
- giving effect to economic policy which might aim at:
  - (a) the welfare of the community as a whole (e.g. both social and economic)
  - (b) correcting economic imbalances,
  - (c) stimulating overall economic growth,

16. The objectives of taxation might, therefore, be economic and political development-oriented, public service-oriented and revenue-raising-oriented. There was, therefore, a close relationship between the objectives of taxation and the national development goals of a country, since the objectives of taxation derived their meaning and direction from national development goals, cultural and political structure of a country. The stage of the economic and social development of a country could also influence the objectives and structure of taxation policies and systems.

17. Where national needs, for example, were in the area of finance, in a given country, it was advisable to identify the financial problems in order to enable the formulation of fiscal policy objectives that would be tailored towards countering the identified problems. In this respect, the paper gave the example of Malawi experience for the fiscal years 1979-1985 where the pressing financial problems identified in the economy were as follows:

- government budget deficit on recurrent account;
- shortfall in nominal resources for financing expenditure on development account;
- poor financial performance of most parastals resulting in increased financial dependence on the central government;
- unhealthy levels of the country's foreign reserves due to internal and external factors (1979/84)/
- unhealthy growth in the tax revenue induced largely by 1980/82 stagnation in the volume of economic activity/

18. Against the foregoing background, the 1985/86 Malawi government budget was formulated, picking up ongoing objectives of, among other things, restraining recurrent expenditure and improving revenue performance 13/. The fiscal measures undertaken to improve revenue performance included:

- increase in land rent from K7.41 to K10 pa.
- 10% withholding tax on property rentals
- 5% withholding tax on receipts of K200 from supplies of foodstuff to traders and institutions and sales of tobacco.
- 10% levy on f.o.b. value of tax and tobacco exports.
- amendment to legislation affecting taxation of insurance business to provide a new formulat.

19. These tax policy measures which were intended to raise revenue to counter the financial problems in Malawi illustrated in practice, the relationship between a country's taxation objectives and its national needs or development goals, the paper observed.

20. The next issue considered in the presentation was the concept of the principles of taxation and these were briefly summarized to be that taxation ought to be equitable, economic, simple, certain and neutral.

21. The presentation, however, expressed reservation as to whether these rules or canons of taxation which were applied in every situation, were widely recognised. The appropriate canons of taxation could well be developed on the basis of the structure of the economy of a country which itself, was modelled out of the national development plans.

(ii) Other objectives of taxation

22. The aim of the paper was to show the multi-purpose nature of taxation objectives and also to examine the effects, costs and benefits of certain objectives of taxation. At the onset, it was remarked, in the presentation, that it was advisable to keep in mind the fact that income tax legislation was meant to achieve more than government revenue. However, it should be admitted that the Revenue aspect might inevitably outweigh the others, depending on the needs of a country concerned.

23. The presentation, then proceeded to address the question of the other achievable objectives. It was pointed out that the other objectives could be sought in the light of a country's socio-economic policies which were expected to clearly spell out the development priorities. For an example, where priorities were for economic development, likely taxation objectives could include:

13/ Malawi Economic Brief (National Bank of Malawi)

- attracting foreign investment;
- encouraging new business;
- encouraging specific industries
- attracting foreign expertise

24. In respect of attracting foreign investment, the tax objectives could aim at granting favourable treatment to dividends declared and payable to non-resident shareholders whilst new manufacturing business were encouraged by offering tax incentives in the form of deductions in respect of expenditure that was incurred not more than eighteen months before the establishment of the business and provided the expenditure were incurred in the course of establishing it. For encouraging specific industries, it was pointed out that where economic policy indicated that certain industries should receive favourable consideration, it was possible to offer tax incentives such as 100% expensing or accelarated depreciation on capital expenditure. The depreciation was only available to manufacturing industries that had been defered and included hotel industry, power generation, transport dock, farming operations etc.

25. In respect of development priorities which were intended to provide socially desirable services, the taxation objectives would be to induce the provision of certain services. For an example, in Malawi, there were provisions in the tax legislation which allowed as deductions premiums for pension fund contributions in respect of both employees and employers and also deductions in respect of interest paid to any registered building society on loans advanced by the society to finance owner-occupied houses. Also in this regard, the Malawi tax legislation allowed as deductions premiums on Group Life Policies and Term Assurances though not directly connected with employees' business activities if they were intended to ensure financial soundness of the dependents of an employee, should he die in service.

26. The presentation further examined the degree to which taxation objectives had, in reality, succeeded in achieving the intended ends and concluded by the observation that with the inadequate statistical information, and, the absence of organised tax incentives evaluation centers in the government administration, it was impossible to evaluate the degree of their success.

Summary of conclusions

27. During the course of the discussion of the topics under consideration the participants conceded, in principle, that there was a need for harmony between the national development goals and the taxation objectives. However, they observed that in developing countries, national development plans tended to be less detailed with unrealistic or impossible targets, and also that in the case of tax changes, there was a trend for such changes to be on ad hoc basis due to pressures whose originating forces were usually external to the country's economic system. Such a trend, the participants felt, was likely to lead to disharmony between national development programmes' objectives and the taxation objectives. The ad hoc tax changes hindered the selection of best tax policies because it inhibited a careful economic analysis of the working of the taxes within the economic system.

28. In this connection, the workshop recommended that the Department of Economic Planning and Development should monitor the relationship between the national development plans and the taxation objectives through comprehensive economic analysis.

29. On the concept of the canons of taxation, the participants were of the opinion that the application of the canons of taxation called for precautions and also required to be viewed in the light of the social, economic and political setting of a country as well as the administrative capabilities of the tax administration.

30. Further on the issue of the objectives of taxation, the participants shared the view that the objectives of taxation achieved other ends than the revenue-raising one, though, the revenue raising one still remained the most important. The participants accepted that taxes could be used as incentives to achieve certain desired ends. However, reservations were expressed on the success of such tax incentives in achieving or influencing the intended ends. One participant recalled that discussions on the very issue of evaluating the behavioural effects of tax incentives in previous seminars had shown that in developing countries, Malawi not an exception, the evaluation was almost impossible due, amongst other factors, to lack of accurate statistical information, the absence of organized tax incentives centers and qualified staff and the influence of non-tax incentives factors, such as the size of the market, political stability, cost of labour, availability of raw materials, exchange control regulations and availability of infrastructures, etc.

31. In this connection, the workshop recommended that an "Investment Unit" or Standing Taxation Review Committee be established in Malawi to co-ordinate and monitor tax incentives.

32. The participants also discussed tax incentives in relation to small-scale enterprises and observed that in Malawi, the taxation act did not provide special incentives for such enterprises. It was felt that in line with the Malawi government policy of emphasis on the development programmes for rural sectors, it could be recommended, for social and economic purposes, to encourage small companies which were labour-intensive to operate in such sectors.

33. The workshop recommended therefore that special tax incentives in the form of reduced tax rates, should be granted to small, local, labour-intensive companies. However, such tax incentives needed not to be granted on sectoral basis.

(iii) Aims of customs tariff policy

34. The purpose of the topic was to review the customs tariff policy in Malawi. The discussion on it, focussed attention on two aspects, one dealing with the meaning and purposes of customs tariff whilst the other gave an overview of the Malawi experience in the use of customs tariff. Some of the points highlighted regarding the first aspect were that customs tariff was a schedule of rates of customs duties which in the modern sense were public taxes on goods crossing

a political-frontier. They were taxes and not fees, since there was no return service rendered by the corporate body which levied them. Customs tariff was, therefore, part of the national system of taxation.

35. Customs tariff in their capacity of taxes could also be viewed as instruments of economic policy with a variety of possible uses apart from those of revenue-raising. The role of customs tariff varied, of course, from country to country, depending upon the level of economic development of each country.

36. Tariff had in general terms, two major functions. Those were (a) the fiscal function (e.g. the collection of revenue) (b) that of protecting the domestic industries of a country. In addition, there were other non-major functions of customs tariff. Those were (i) economic (e.g. as an economic regulator to complement existing monetary and credit controls) and (ii) that of protecting the balance of payments (e.g. trade policy).

37. In the case of Malawi, as a developing country, the customs tariff provided the following:

- The collection of revenue for the Government;
- Protecting and assisting the economy in numerous ways, for example, through exemptions from duty, providing protective rate of duty, remissions of duty, granting of industrial rebates and drawbacks, etc;
- Collection of statistics of goods imported into Malawi which were vital for the assessment of future demand for goods negotiation of trade agreements and government planning;
- The tariff gave effect to trade agreement in so far as they related to Malawi duties. This was done under a system called "Tariff preference", that is, the various preferential rates of duty being distinguished in the preferential duty column of the tariff.
- As a general principle in Malawi, the custom duties were imposed in such a way that they did not conflict with various other government policy objectives in pursuit of which government spent money.

38. The various types of customs duties identified in the presentation were:

- Ad valorem duty: calculated as a percentage of the goods that were to be customs cleared.
- A specific duty: the level of duty depended on certain factors that could be weighed, measured or counted (weight, volume and number of units).
- A combinational duty: that was a composite of an ad valorem and specific duties, with one of the two indicating either the higher or lower limit of the rate of duty to be applied.
- The variable levy: Compensated for the difference between the higher domestic price on one hand, and the lower foreign price, on the other.

Summary of conclusions

39. During the discussions, the participants conceded to the view that the customs tariff was part of the national system of taxation and, therefore, it too, was an instrument of economic policy and as such, its policy formulators were expected to be aware of the objectives of the economic development plans in order to avoid conflicts that might be obstacles to a harmonious climate for national development. The participants strongly felt that a better customs policy formulation process could be the one leading to the development of a system whereby, for an example, the protectionist role of the customs duties did not compromise efficient allocation and maximum utilization of resources.

40. The participants further observed the need to assess the general role of customs duties in the Malawi economy as a major source of revenue.

41. The participants also discussed the possibility of merging the Customs Department and the Tax Department. However, they felt that the issue needed further consideration. Meanwhile, there was need to establish effective system for exchange of information between the Customs Department and the Tax Office. Also discussed, was the impact of multinationals on customs receipts (e.g. their pricing mechanism). Though there were no recommendations, the participants felt the need to make provision for alternative sources of revenue in the event certain customs duties declined in importance (e.g. as a result of successful policy of import substitution or foreign exchange allocation by the Reserve Bank of Malawi).

(IV) Planning Taxation Legislations, Determination of Level of Taxation and Tax Reform Planning

42. The above topic was discussed in order to come up with policy guidelines on the formulation and reform of taxation legislation. Its presentation highlighted, in broad terms, some policy areas which deserved to be considered in the process of formulating taxation legislations. To begin with, it was observed that there existed a linkage between taxation planning and development planning which required harmony. As regards taxation legislations, themselves, they constituted the authority for levying taxation. In this context, there was, therefore a need to establish clear and comprehensive legislative process through which taxation laws were passed. There ought to be clear sources of legislative history of tax legislations and should be open and known to the tax paying public and that the tax administration had responsibility to educate the public on such laws.

43. Planning taxation legislation did not have to be the sole responsibility of a single government Ministry or Department, but called for co-ordination and consultations with the other relevant government agencies and affected institutions outside government control.

44. There were certain factors required to be taken into consideration when determining the level of taxation in a country. Some of these factors could include, the tax structure, per capita income, per capita wealth (e.g. real estate or property wealth), assessability of the liable sources and the collectibility of the

revenue assessed, social habits and attitudes of the tax payer, trade policy, foreign exchange control policy, industrialization policy, international treaties, government expenditure policy etc.

45. Certain issues were identified to be important for consideration under tax reform planning and these were the level and frequency, at which planning was carried out, the goals and objectives of the development plan, the new philosophies of new governments, short or long-term revenue projections and the allocation of the responsibility for tax reform planning.

Summary of conclusions

46. On the issue of planning taxation legislations, the participants observed that generally, the tax legislations in Malawi lacked in precision, and expressed concern that if the legislations were generally vague, the administrators would encounter difficulties in interpreting them, as a result, the departmental rulings drawn on the basis of such legislations, might themselves be improper. The vagueness of some taxation provisions were attributed, in part, to the lack of qualified tax lawyers to assist in the drafting process. In this connection, the workshop recommended that a legal unit be established within the Income Tax Department and that qualified tax lawyers be recruited.

47. Concerning the process of formulating taxation legislations, the participants expressed varying views on the degree of consultation and openness on the part of the Treasury. For example, the issue of consulting the Ministries, Departments and other institutions likely to be affected was raised. Some participants were of the opinion that there was apparent lack of adequate consultation and felt a strong need for consultation in order to avoid frustrations in the implementation of tax levies because of conflicts with the established policies of other ministries. However, after exhaustive deliberations on the issue, a general consensus was reached on the need for wider consultation and openness on the part of the treasury. In this connexion, the workshop recommended that in the process of the formulation of taxation legislations or undertaking tax reforms measures, there should be wider consultations and openness on the part of the treasury.

48. On the issue of tax reforms, the participants observed that the tax reforms ought to be within the framework of a country's development objectives, and, in general, it ought to be geared towards minimizing social and economic burden concommitant with the transfer of resources from the private to the public sector. It was further observed that there were certain distortions emanating from certain arbitrary tax advantages arising from operating in a particular legal system or from special incentive provisions which usually lacked well defined objectives and often arbitrary in operation, particularly in developing countries.

V. Training Policy in Tax Administration

49. This topic was aimed at reviewing training needs and facilities for tax officials of Malawi. In introducing the topic, it was emphatically pointed out that the first step to improve the mangement of any organisation, agency, ministry or department was to clearly identify the problems affecting it although such problems could not be solved through training only. The profession of a tax expert was of necessity a highly specialized one..and dictated the need for highly qualified training.

50. Tax officers could acquire training either externally or internally. Knowledge and skills could be acquired externally from public or private institutions of reputable standing;whilst internally, the administration itself assumed responsibility for preparing their tax officers for future responsibilities. Internal training could be of on-the-job training and induction training courses before assuming duties. The training might be standardized so as to provide the basic and general knowledge required for work.

51. Internal and external training provided a number of advantages and disadvantages (e.g. external training was not tailored to meet the specific requirements of each tax administration while internal training provided the tax officer the opportunity for familiarization with other fields of tax administration and thus becoming versatile. It gave guarantees for common basis of knowledge for young tax officers.

52. The determinant of a training curriculum or what tax officer ought to learn was often the occupational profile of the particular tax administration, which would show the occupation, function and groups of jobs in the tax administration. The occupational profile in tax administration was usually similar between countries and were usually the tax-payer-service e.g. returns processing, examinations and audit, appeals, collection, investigation, administration, legal and research, and statistical data analysix. Taxation was multi-disciplinary and required fairly diversified skills and knowledge of tax officers. In addition to training, there should be job satisfaction, since the job itself constituted performance system. Skills and knowledge on the job should be acquired, and job standards known. There should be feedbacks followed by reinforcements. All of these called for carefully designed jobs and organisational climate.

Summary and conclusions

53. During the discussion, the participants commended the well organized and fully established training facilities at the Customs Department and expressed the view that it could provide valuable information and guide in the event similar training facilities were developed for the Tax Administration. Also, the Customs Department could provide interim facilities whilst long-term plans were undertaken for the Tax Office's training requirements. The subjects suggested for the training course for tax officials included basic economics, law, accounting and management to meet the multi-disciplinary nature of the field.

56. The participants felt a strong need for the recruitment of trainers and for short training courses for supervisors to equip them with the necessary management skills. They also emphasized the importance of identifying the areas of needs for training, carefully designed curriculum, careful selection of the candidates, rewards to the successful officers as motivation and attraction to retain them, etc.

57. The workshop recommended that there must be identification of the areas of need for training, careful selection of candidates, consideration of academic background and the interest of the individuals.

58. That the government ministries/departments must have their own trainers in order to meet their internal training needs, and that such trainers should be available as guest lecturers at any established training Centers.

59. That training must be at all levels on the management and leadership skills Government must be emphasised for senior officers.

60. That the curriculum design at the established Training Centers should take into account the training needs of the government ministries and departments.

61. That rewards must be accorded to the officers as motivation and attracting factors to ensure the retention of trained officers.

D. Workshop topics relating to Malawi experience with Taxation Policies, Administration and and Budgetary Management

60. Several papers were presented and discussed on specific issues relating to Malawi experience with taxation policies, systems and budgetary management. Again, for the purpose of summary, those papers whose texts were closely linked, were jointly presented and discussed.

(i) The role of Tax Revenue in the Malawi Central Government Budget

61. The purpose of the topic was to review the overall tax base in Malawi. The topic was discussed to illustrate the impact of government expenditure on public finance strategy. It was mentioned during the presentation, that there were two types of effects of government expenditure, namely, (a) its influence on the allocation of resources and (b) its compelling push to public borrowing, both internally and abroad. The presentation proceeded to demonstrate the importance of tax revenue in Malawi. First it showed the dependence of the government expenditure on tax revenue (for example, both components of government expenditure, viz. recurrent and development depended on tax revenue). The paper gave a statistical record of the percentage of the budget which was financed from taxes over the past five years. For example, 67% in 1981/82, 65% in 1982/83, 68% in 1983/84 and a record 70% in 1984/85, and 69% in 1985/86. The reasons for the upward trend were the results of discretionary effects and tightening of overall government expenditure.

62. The category of the taxes levied in Malawi were given as follows:

- Taxes on income and profits,
- Taxes on property (estate duties),
- Taxes on goods and services,
- Taxes on international trade,
- Stamp duties, trade marks/patent fees,etc.

Their share of contribution to overall tax revenue was indicated as shown below:

Type of tax	Year	% share of amount
1. Income profit	[illegible]	[illegible]
	[illegible]	[illegible]
	[illegible]	[illegible]
	[illegible]	[illegible]
	[illegible]	[illegible]
. Goods & services	[illegible]	average [illegible]%
3. International trade	[illegible]	average [illegible]%
4. Property	[illegible]	Gross collection K[illegible]
5. Sales duties	[illegible]	average K[illegible] million

Factors which have a direct or indirect bearing on total revenue in Malawi were:

Tax base,
Elasticity of tax,
Tax buoyancy, and
Administration of tax.

12. Total revenue collected was directly dependent on the size of the tax base, just as a farmer's harvest was dependent, to a large extent, on the amount of land cultivated. The overall tax base in Malawi was characterized by a large agricultural sector followed by manufacturing sector, distribution, transport and communications, financial and professional services sectors, etc. All the tax revenues collected from these bases were affected by factors such as climate, world prices, and a score of others. Over the period under review, the bases had not significantly changed.

13. As regards the elasticity of tax in Malawi, it was pointed out that it was greater than 1, implying that as GDP grew, the tax revenue grew more than proportionately, and when it fell, tax fell more than the fall in GDP. The tax buoyancy in Malawi was also greater than 1, a factor that had influenced the total revenue collected over the three period. Tax bouyancy was the ratio of a

percentage change in actual tax collections over the data period to the percentage change in GDP. That took into account both the automatic and discretionary effects of taxes.

[illegible]. Turning to the administration of taxes, the paper points out that tax administration had an important bearing on total revenue collected. The efficiency of the officials in tax administration was directly reflected in the tax revenue collected given an unchanged tax base. The paper concluded by reiterating the importance of tax revenue in the financing of the central government budget as a universal phenomenon, among both developed and developing countries. It further stressed that there was the need for tax policy formulators to be fully aware of the significance and impact on the economy of the implementation of tax policies. A poorly formulated tax policy, for example, might have adverse effect on income distribution and production capacity. On the expenditure pattern, the government was commended on the move to cut down expenditure rather than increase taxes in order to reduce the overall deficit. The paper observed that as a progressive development. Given the structure of Malawi economy, increases in government revenues could not easily be effected by expanding the tax base, but, instead, by adjusting the rate structure upwards a resort which was detrimental to the economy.

(ii) The effects of recent tax reforms on tax revenue and equity in Malawi

[illegible]. The discussion of the above topic was to review the effect of the recent tax reforms on the PAYE tax system in Malawi, with a view to determining the true purpose of the reforms (i.e. whether they were aimed at raising additional revenue or merely to reduce the tax burden). The presentation commenced by giving an overview of the pre-reforms of the PAYE tax system and pointed out that, under that system, the tax was calculated under two schemes. Under the first scheme, tax was payable on the taxable income (gross income less allowable deductions) with no allowance in respect of personal circumstances. The tax rates ranged from tax payable of K[illegible] to K61 per annum on corresponding annual income ranging from K[illegible] to K[illegible] and over per annum.

[illegible]. Under the second scheme, personal allowances were deducted from the income to arrive at the taxable income. These allowances included:

Single person	K600
Single person with a dependant	K[illegible]
Married person	K[illegible]
Child	K[illegible]

In addition, life insurance premiums and interest on building society loans for owner-occupied dwellings were deductible. The schedule of rates ranged from 10% to 50% on progressive levels on corresponding annual incomes of K1,[illegible] and over, with the income of wife being deemed to be the income of the husband and the husband having to file. In March, 1989 PAYE tax system was changed eliminating all the family allowances and altering the tax rates downwards particularly for lower income group. The aim was to increase revenue.

67. Did the change achieve the intended revenue objectives? Analysis of the changes in rates, income brackets and allowances, and the comparison between how much tax families with different levels of income and under different personal circumstances paid after the reforms and what they used to pay before the reform indicate that the revenue lost revenue increased with the reforms assuming nothing else changed the same observed.

68. However, the increase in revenue did not necessarily mean or reflect overall reduction in tax burden, particularly for tax payers with large families. Instead, the reforms resulted in more tax liabilities than before for those tax payers with children. That was the direct result of removing the personal allowances. The attitude or reaction of those tax payers adversely affected by the 1986 reforms forced the authority to make new tax changes in 1987. So the 1986 reforms neither achieved the 'aims' revenue nor did it improve equity. However, the 1988 reform did improve the situation of those who were worse off under the 1986 reform, but further reduced revenue.

70. The 1986 and 1988 tax changes on PAYE tax system might be looked at in the light of the following observations and suggestions. The reforms eliminated family allowances and reduced the tax rates the net effect of which has been a reduction in tax revenue. The 1988 tax structure favoured smaller families especially those in the high income brackets by lowering their tax liabilities at the expense of large families within the low income brackets who pay more than before the reforms. It was also favoured to separate assessment as opposed to aggregation. This warranted the last revision of the rates, which reduced the tax liabilities of all tax payers irrespective of family size or income. This resulted in a further reduction in revenue. So the tax reforms of the 80s were not aimed at revenue-generation but at relieving taxpayers of some of the tax burden.

- The elimination of family allowances violated the horizontal equity criteria of tax system which state that people under the same circumstances should be treated equally. By removing the allowances, taxpayers with different circumstances were treated equally thus making the tax inequitable.
- Moreover, this inequality was aggregated further by the separate assessment option which treated taxpayers with a wife who was a wage earner more favourably than one whose wife got her income from other sources or just stayed at home. It also made a difference whether a couple was married or were just living cohabit.
- The present tax system was neutral when marriage was between partners with earned income, and when the wife claimed home. It did not encourage marrying a person whose income was not from employment. However, the previous tax structure encouraged large families because of the family and child allowances but the reform eliminated these and the present system was neutral.

71. Due to the imperfections of the current system, it wassuggested that new measures should be taken in order to improve the situation. These suggestions were as follows: First, the separate assessment option should be eliminated in order to remove the inequality between a wife's earned income and that from other

sources. If there were strong feelings that earned income which was received after hard work should be treated more favourably than easy money in the form of rent, dividends, interest and the like, then the discrimination should be across the board for all earned income irrespective of the recipients.

72. Secondly, since this was a personal income tax, personal circumstances should be taken into account. Three alternatives were, therefore, suggested. For the old system where allowances were given according to family size, the question of the quantum of these allowances and the tax rates could be looked into once the principle had been accepted. The major weakness of family allowances which were deducted from income before the imposition of the tax was that it tended to make the system less progressive. For a family in the 50% tax rate would be saving K1,000 in tax liabilities if the allowances added up to K2000 compared to those in the 10% tax rate who saved only K20. That means those with high incomes were given more tax relief than those who were relatively poor.

73. In order to avoid the regressive nature of allowances, tax credit should be used instead. This means that each family size could be given a figure which could be deducted from its tax liabilities.

74. Finally, the quotient system, as applied in Europe could be adopted. Under this system, the income of a family would be aggregated and then divided by the number of people in the family and tax was imposed on the quotient. After multiplying the outcome by the number of members the amount obtained would give the amount of tax due. That might result in large families paying taxes at lower rates than those which were small. The number in a family could be calculated using weighted figures. For instance, a man and wife could be allotted a point each while children could be worthy of only half a point. Hence, a family without children could have two points, and one with 2 children would be given 3 points, and so on.

75. These alternatives had their own weaknesses and, therefore, before they could be implemented a more detailed study of their impacts should be undertaken.

Summary and conclusions

76. In discussing Malawi government expenditure in relation to its impact on the allocation of resources and the pressure it brought to bear on government's increasing reliance on external financial assistance the participants, after deliberating, concurred that government expenditure ought to be controlled and, where possible, cut down. They endorsed the government's move to cut down on expenditure as regressive. They further expressed the view that public projects required to be evaluated carefully before funds could be committed to them.

77. As regards the elasticity of the tax base being greater than 1 in Malawi, the observation was that there was a general tendency-in LDCs for low elasticities due, in part, to lower lags in tax collection and inflationary effects which tended to reduce real revenues due to lower degree of progressivity of their tax systems, whereas in industrialized countries with high progressivity of their tax systems, elasticities were often more than unity and because of minimum lags

in collection inflation tended to move people into higher tax brackets resulting in overall tax revenues growing faster.

78. As regards the tax reforms relating to the separate assessment clause in the taxation of family income in Malawi, the participants shared various views on the desirability of treating earned and unearned income of the wife differently and the feeling of the majority was that the clause be amended so that it covered all classes of income alike. Concerning the PAYE tax system, the participants observed that the deductions favoured higher income group and, therefore, felt that the system required to be simplified but taking due precautions with regard to equity and revenue implications. To avoid possible adverse or absurd results from tax reforms, the participants felt that there was need for formulating future guidelines on how to undertake development-oriented tax reform measures.

79. The workshop, therefore, recommended that a study be undertaken on pragmatic approach on tax reform planning on the basis of which guidelines could be formulated for future tax reforms proposals.

(iii) Taxation policy for Malawi

80. This topic was discussed in order to review the taxation policies and system in Malawi and its presentation commenced by pointing out that Malawi taxation system was geared towards reducing fiscal deficit and as such the key objective was revenue raising. Secondly, the tax system in Malawi was designed to suit the existing administrative capacity of the tax department. The revenue objective had probably resulted in upward trends in the tax rate structure. Malawi had also increased its dependence on international trade taxes to finance expanding government expenditure occasioned by the financial dependence of parastals on the central government budget and the increased payroll for civil servants.

81. The reliance on international trade taxes had not discouraged domestic production, it was observed. One reason was that Malawi pursued an informal policy of foreign exchange control and in times of foreign exchange shortage, Malawi had refused requests to import commodities that competed with domestic manufacturers and in such situations, domestic prices were determined by competitive forces within the domestic economy, though the small size of the here market limited the scope of competition.

82. However, absence of highly competitive environment tended local producers to increase prices and as a result, government introduced price controls. But these were being disregarded as there was expectation that prices might even soar. Experts advocated availability of foreign exchange for importation of commodities that would compete with domestic manufacturers and that protection of domestic industries would be effected through the taxation system.

83. The system of foreign exchange allocation had a direct impact on revenue, (e.g. if applied to prohibit importation of luxurious goods of high value and hence commanding high rate of import duty and thus making the revenue receipts to decline).

94. The discussion leader pointed out that the tax structure in Malawi consisted of major taxes and minor taxes. The major ones included indirect taxes such as international trade taxes, direct taxes such as corporate and personal taxes accounting for 87% of total tax revenue. The minor ones included the minimum tax, land tax and stamp duties.

95. At times, decline in traditional import tax base had led to widening the tax base. (e.g. the 10% decline led to the introduction of tax on inputs used in production and subsequently, in 1984, the introduction of export tax). This again was identified by the paper as the impact of foreign exchange allocation on tax revenue.

96. There was a likelihood of the dangers of changes brought about under pressure or zeal for revenue which tended to distort certain economic activities, e.g. increasing domestic production costs and reducing competitiveness of import substituting or export-oriented Malawian products. Companies generated more revenue whilst majority of revenue from taxation of personal income was generated by the PAYE (Pay as you earn scheme).

97. Malawi was quite unique in that it did not impose a withholding tax on remittances i.e. dividends, branch profits, interest payments, factor services, royalties and rents, the paper observed. Absence of this resulted in loss of opportunity to collect additional taxes on income from its own servies. It appeared that the benefits of withholding tax outweighed the costs and, therefore, it could be advisable to introduce the withholding tax into the taxation structure of Malawi to be charged on all payments crossing the border such as dividends, interest payments, rents, royalties and factor services for labour of non-residents performed in Malawi.

98. Turning to tax administration, it was observed that the design of existing tax forms both for income taxes and commodity taxes was not proper enough to provide useful information. There was no system to provide information between the Tax and Customs Departments and also there was an apparent lack of a unit responsible for tax policy analysis in the Finance Ministry.

(iv) Company tax policy as a determinant of private investment decisions

The Malawian case

99. The purpose of the topic was to review the impact of the Malawi taxation policy on private investment decisions and its discussion was guided by drawing a distinction between the integrationist view and the dissolutist view. The former asserted that all corporate source of income should be included in an individual's income tax base and be taxed as such in order to avoid taxing profit twice (e.g. economic double taxation). The arguments were that company tax was charged on profits and if the profits were distributed, they would be taxed twice first at corporate rate and at individual income rates. The latter treated the corporation as a legal entity and liable to tax on the profits. It made subsequent distribution of retained earnings taking dividends to be immaterial, since the dividend was a different class of income from the profits of the corporation.

[illegible]. In the case of Malawi, company taxation follows the incorporationist view of taxation of companies and shareholders was, therefore, integrated. A basic tax rate of [illegible]% was imposed on taxable income of all companies resident or having a source in Malawi and domestic shareholders were entitled to a credit for company tax paid against income tax assessed on the grossed up dividend. Shareholders not resident in Malawi suffered the full [illegible]%. An additional [illegible]% of taxable income was levied on all profits if the company was not resident in Malawi. In the event that the company was incorporated in Malawi and was dividends were distributed to non-resident shareholders, the [illegible]% was levied on dividends distributed to these non-resident shareholders.

[illegible]. Deductions were allowable against income to arrive at taxable income in respect of expenditure and losses wholly or exclusively incurred in the production of the income. In addition, special capital allowances (i.e. investment allowances of [illegible]% on new industrial buildings, plant or machinery), initial allowance of [illegible]% on plant and farm improvement, [illegible]% on machinery and equipment and [illegible]% on farm fencing and [illegible]% annual allowance on plant and farm improvements and [illegible]% on farm fencing were provided.

[illegible]. The co-operative societies, clubs and other recreational organizations were assumed to have taxable income equal to [illegible]% of their turn-over and suffer [illegible]% of the taxable income, the rate applicable to trusts.

[illegible]. Exemptions were applied to agricultural banks, marketing boards, trade unions, religious and educational institutions of public character, certain statutory bodies and agricultural development and marketing corporation, agricultural research council, Air Malawi, water board, electricity supply commission, etc.

[illegible]. Generally, the effect of company tax on the supply of reinvestible surplus was to prevent the rapid build-up of reserves which often expanding company required. The tax influenced decisions on choice of project. A project might be accepted without tax but unacceptable with tax imposed given an expected rate of return. But other factors influencing investment decisions were cost of capital and risk premiums.

[illegible]. In Malawi, company taxation follows the incorporationist view thus encouraged distribution of dividends and eroded the internal supply of re-investible surplus and forced firms to seek outside sources of finance, the paper observed. This state of affairs might not be in the interest of Malawi economy in the light of the role of corporations in the development and growth of the economy.

[illegible]. On the issue of benefits accruing from capital allowances under normal circumstances, it could be said that these allowances benefited those firms willing to invest. The precise benefit of course depended, amongst other factors, on the amount of tax deferred in the initial allowance year, the relevant rate of return on capital invested. On the overall, however, the allowances had an obvious advantage of increasing the expansionary capacity of firms.

97. In Malawi, the appraisal of the corporation tax for the years, 1..0/ 1, 1981/82, 1982/83, 1983/84 and 1984/85, showed that a proportion of taxes on incomes and profits alone, was respectively, 20.1%, 21%, 20.9%, 1..7 and 21%.

98. It was observed that Malawi company tax rate at 35% was not extraordinarily high as compared with those of other developing countries. In any case there were other non-tax factors which influenced investment other than low company tax.

Summary of conclusions

99. On the issue of the scope of the Malawi tax structure under the taxation policy towards reducing fiscal deficit and suiting administrative capabilities, the participants felt a need for constant review of the tax system since other national needs might compel shifts from revenue objectives to other taxation objectives. Also, because there was no guarantee that the administrative capability would be maintained over a desirable period, particularly in view of the general understaffing of the tax department, the workshop recommended that
(a) the tax system in Malawi should be constantly reviewed;

(b) that there should be improvement in staffing position.

(c) regarding the dividend policy, there was a general feeling that the favourable tax treatment (e.g. less taxing of non-resident shareholder) was not much in the interest of the economy both from investment expansion and revenue view points. Most neighbouring countries of Malawi impose withholding non-resident shareholders tax (dividend tax at the rates of 10% to 15%). The participants, on this point were impressed by the suggestion in the paper on "Tax Policy for Malawi" to introduce withholding taxes not only on dividends but also other payments across the Malawi border.

(d) regarding the integrationist theory of economic double taxation, the participants identified a variety of factors which might justify taxation of corporate income even though dividends were taxed in the hands of shareholders as personal income. These were (i) equity (if undistributed profits were free of tax, that would be incompatible with the general principles of taxation). (ii) administration (e.g. companies comply to the letter with statutory accounting requirements than small investors and farmers (iii) political consideration (e.g. preference to tax corporations which do not have votes to individuals who do) (iv) the benefit principle (e.g. corporations should pay tax in return for the benefits conferred by incorporation). However, the participants observed the danger of high rate of corporate tax which retarded the development of the corporate sector which was vital to speedier development in the private sector whilst the government continued to incur heavier expenditure on its development programmes, particularly development of the rural sectors and provision of basic infrastructures.

Towards a viable budget for Malawi

100. This topic focussed attention on future policy direction regarding taxes in an attempt to provide solutions to the growing budget deficit. The discussion started by drawing attention to Malawi policy environment and observed that Malawi economy was predominantly agricultural. Of the GDP, the agricultural sector

accounted for 20%. That leaves back to colonial era. It is evidence the manufacturing sector only comprises declining industry mostly between and 1/4. The high growth rate in manufacturing in the late 70s and 80s was due to the fact that at inception the industrial base, which already existed was very tiny. The market for manufacture output is very sensitive to its growth depends on the growth of the aggregate economy. Yet the aggregate demand was too small since about 70% of the population was in the rural sector with no commercial activity or no service activity with low income.

[6]. The overall G.D.P. has gathered from a high growth of % prior to 1972 to about 2% now. Because of this, the tax base is already narrow and its growth was limited.

[7]. With regard to the planning ratio, the government expenditure, inspite of efforts to cut it, has grown faster than the growth of revenues thus placing the gap between government expenditure and revenues. To try to bridge the gap, government has always resorted to increases in tax rates. Taxation as an instrument for economic policy has, therefore, come to the role of narrowing the budget deficit.

[8]. There has existed concern over the above fiscal situation since according to Laffer curve, there was a limit of which taxes could be raised, thereafter, revenues would start to decline. Also of concern was the increasing taxation on imports, since it gave rise to protection of local industries thereby creating inefficiencies which led to high prices due to reduced inflation. International competitiveness was affected thereby creating need for devaluations.

[9]. From the above, it was obvious that tax rates alone could not be the answer to the growing budget deficit. What then could be the future policy direction regarding taxes? To answer the question, the paper tried to suggest that efforts should be made to channel government expenditure towards developing tax-yielding projects that was, some form of tax base-oriented government expenditure. The paper then demonstrated the theory by the use of the model developed by Brennan and Buchanan on "Tax Instrument as Constraints on 'Profligate' Public Revenues". The model related government spending to revenues. It concerned itself with tax base with strong complementarity with government spending. The emphasis should be on the need for allocating tax revenues which could be used as a constraint on expenditure outlays by government. Allocating revenues to expenditure which could yield revenues would instil financial discipline. It might even ensure efficient utilization of resources the paper observed.

[10]. Additionally, a careful selection of tax bases that show strong complementarity with government spending as well as a fair elasticity could direct government spending. The more that was spent on current tax bases, the more viable would be the budgetary position. On the other hand, the less money that was allocated to such tax bases which created less new business activities, the less viable would be the budgetary position.

(vi) Adequate budget structure and format

106. This was a brief outline highlighting salient points on the use of government budget, the structure of government budgets in African developing countries, and budget reforms. In a nutshell, the functions of government budget were discussed to be either economic or non-economic. The economic ones being as follows:

- Allocation of resources in the public sector as efficiently as possible to provide increased productivity.
- Improve income distribution by appropriate change in taxation and expenditure.
- Stabilization of the economy.

Non-economic functions include:

- Giving detailed statements of government's intentions and constitutes a major political statement about government's social and economic objectives and the means by which it proposes to attain them.
- Legal document, being a control mechanism.

107. The budget structure should be able to meet the above functions provided it meant the following.

- Output (microeconomic function)
- Input (microeconomic function)

108. The outline identified the prevailing budget structure of Malawi as a conventional budgetary system based on inputs (or microeconomic functions) with bias to objects of expenditure. It dealt with spending departments and not programmes and as such was of less assistance in planning and decision making on priorities.

109. The budget reforms proposed for Malawi in the outline featured programme budget (or the PBS). Programme budgeting specified the objectives and pursued the relationships between them and the activities. The (P.B.S.) was formulated by establishing goals and objectives from the medium term plan and by classification of government activities into:

- Functions
- Programmes
- Programme elements or activities.

The example of a programme format of a department was given as follows:

Department of Agriculture

Programme: Agricultural marketing and distribution

Objectives:.....

Programme elements or activities

Marketing

Agricultural statistics

Market news programme

C O S T .....

(i) Personnel emoluments

(ii) Other expenditure

(iii) .....

Summary of conclusions

110. The participants expressed the view that the Treasury Model as suggested had good intentions, but cautioned that project-related tax losses might prejudice development of non-tax-yielding activities and that Malawi's economy, in particular, was not ready for its experimentation. In any case, the government expenditure was tied to the country's development programmes contained in the development plan for example, focus on economic and social development in rural areas since the economy was predominantly agrarian. Expenditure on such services largely supported less revenue-yielding activities, yet government had national responsibility to provide such services. Departures might not be in the interest of national development. However, on the suggested budget reforms the participants felt they deserved consideration for future restructuring of Malawi government budget.

(vii) Minimum Tax in Malawi: Historical Background, Present Structure and Future Prospects

111. However, small in magnitude, the minimum tax being one of the taxes in the tax structure of Malawi, provoked a lively discussion focussing upon the historical development, the present structure and the future prospects of the tax. Originally, the tax was known as poll tax, first paid by the people of Lower Shiran to the Portuguese before the British took over Malawi in 1891. The rate was 2 tartala. Since then numerous changes have been introduced regarding the structure of the tax the amount to be paid and by whom and its administration.

112. During the discussion, it was pointed out that in absolute terms, the hut tax yielded £6,000 in 1901, £60,000 in 1905, K150,000 in 1919 and after the World War I, it yielded K400,000 and K1.2 million in 1945. The part played by the minimum tax as a proportion of the total tax revenue of Malawi varied. In 1904 it was 33%, between 1905-1910 it provided 40%, between 1911-1917 it was 50% and at present its contribution was 0.67%.

112. Future prospects of the minimum tax in respect of whether the minimum tax should continue, be abolished or modified was examined. First the persuasive arguments for and against the minimum tax were presented, verified and conclusions drawn, and the arguments in support were:

(a) Minimum tax would introduce the portion of the population under subsistence into the productive sector. It was felt that people would either produce more than was strictly necessary for subsistence or seek employment, at least temporary, so that they could pay the tax. In so doing, they would learn the advantages of working harder and as a result improve their living standards.

(b) Over ninty percent of the tax paying population were in the subsistence sector and should contribute to the cost of government rather than just leaving it to the remaining ten percent.

(c) The cost of collection was very low, since an existing set up(District Commissioners' offices, and Chiefs)was used. Therefore, the tax office did not have to spend money in administering it.

(d) There was plenty of land available for cultivation, and the tax should not cause excess hardship on any able-bodied male over 18 years of age.

(e) People would appreciate public goods and services more if they paid some tax, even if it was just a token gesture.

113. The arguments advanced against the minimum tax were as follows:

(a) In order to raise money so as to meet tax obligations, people were forced to accept low-paying jobs. Thus, minimum tax facilitated the exploitation of cheap labour. This was why the European farmers supported the hut tax and the introduction of differential rates which favoured those who worked for Europeans.

(b) The cost of collection was very low from Tax Commissioners' point of view. But if the amount of labour and vehicles used by the District Commissioners' offices during the periods of tax drives was considered, and what it took courts to process the cases of defaulters, and the cost of keeping the guilty ones in prison, the figures could be substantial.

(c) [illegible] those in the rural areas. Therefore, it was [illegible] to cultivate more land to [illegible] in existence tools and [illegible] in meeting their tax [illegible]. The [illegible] land was more fertile than other land. Second, in case of customary land, people inherited very little [illegible] the [illegible] land. Moreover, no matter how much land one had, how fertile it was and [illegible], the yield would be very small if weather conditions were not favourable in a particular year. The tax could have been fair if it was based on agricultural output and not on individuals as it was today.

(d) As already [illegible], some argued that minimum tax would make the rural population appreciate public goods and services which were provided to them. But this was true only if they saw direct link between their contribution and the benefits they received. Since the revenue was sent to the treasury and spent as a general fund, rural taxpayers did not see the connection between what they paid and what they got in return. The question of appreciation was important when there was a decentralization of both costs and benefits of public goods and services. Therefore, if there were strong feelings about the issue, the minimum tax should be made local. The Ministry of Local Government should [illegible] of collecting the tax - preferably, the District Council should be responsible and then the revenue be spent within the district so that those who paid the tax were the ones who received the benefits from it.

(e) The incidence of the tax fell on the household relative of the taxpayer. In order to avoid summons from the courts, prison sentences, and performance of public work, people in rural areas often put pressure on their poorer relatives to pay the tax on their behalf.

(f) Most of the population who qualified for the tax avoided it. Because the population increased, the number of taxpayers had not increased greatly. For equity reasons, the tax should either be abolished or some vigorous collection mechanism should be presented so that every liable person paid the tax. The collection of the tax was very inefficient, and it was difficult to know who should pay the tax since the current [illegible] was very poor.

(g) The examination of the taxpayers rolls in the Auditor-General in Zambia, Kilombero, Tunduru, Lushoto and Mpanda Districts indicated incomplete and unsatisfactory record-keeping. Examination of the actual collections made showed that a high proportion of tax receipts were not being recorded on the taxpayers' rolls, thus preventing monitoring at district level. Many taxpayers rolls were not up-to-date and in Tunduru District a number of rolls were missing and could not be produced for audit.

(h) Moreover, as a basis for monitoring District Commissioners' effort in tax collection, the Commissioner of Taxes had set tax collection figures for each district but were fixed for the 1977/78 tax year by averaging collections of the previous three years and adding 10 percent. "The target for the whole country in 1977/78 was 343,000 males as compared to an estimated male population of 3,374,000, representing only 10.2 per cent". This showed that a lot of people did not pay taxes in the rural areas. This was unfair and the tax administration was arbitrary.

11. Having considered both sides, the participants observed that the arguments against the continuation of the minimum tax were more persuasive and the more inclined to hold the view that there was a strong case for the abolition of the minimum tax, since the abolition would release resources from the collection of the tax to more productive administration.

Summary and conclusions

117. The presentation of the paper on minimum tax evoked lively discussion despite of the minimal status of the tax. Perhaps, the reason for one of them, was that the tax, however small, affected the largest portion of the population which is on the low or zero income levels. The zero income level would be where people were unemployed but had stock of wealth which was not converted into monetary values, because generally the sector in which they were was not monetized. Participants wanted to know why the rural population should be burdened with tax obligations at all. Why not leave them and concentrate on developing the sector and improve its taxable capacity? Did the tax not interfere with the traditional institutions? The tax was regressive, why insist on it?

11. The arguments for and against the minimum tax served as guides on the basis of which to analyse the issue to be able to express a view on the continuity, abolition or modification of the minimum tax. The participants drew the conclusion that whilst the arguments against the existence of the minimum tax were strong, the tax still had to be given a further chance with improvements in its administration and statistical records. In this connection, participants further suggested serious future consideration of handing the administration of minimum tax to local authorities but cautioned against giving local authorities autonomy to impose minimum tax rates.

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Annex II

Daily Programme of Work

Date	Time	Activities
Monday (11-[illegible])	[illegible]	(i) [illegible] principles of taxation, [illegible] Simalene (ECA)
		(ii) Revenue is not the only acceptable objective [illegible] Income Tax Administration, [illegible] (Commissioner of Taxes)
	10:00 - 10:20	[illegible]
	10:20 - 11:00	(iii) The role of Tax Revenue in [illegible] Central Government [illegible], [illegible] Kuchani (Ministry of Finance)
	11:00 - 12:00	[illegible]
	12:00 - 12:30	(iv) Minimum Tax Historical Background, Present Structure and Future Prospect Dr. [illegible] Kadzola (Chancellor College)
	12:30 - 17:00	Stamp and estate duties (Ministry of Justice)
Tuesday (12-[illegible])	9:30 - [illegible]	Local Government finances (Ministry of Local Government)
	9:30 - 10:00	[illegible]
	10:00 - 10:30	Official opening by the Hon. Minister of Finance
	12:00 - 12:30	[illegible]
	12:30 - 17:00	(i) Aims of Customs Tariffs Policy (Mr. D. C. Kumba)
		(ii) Aims of Customs Tariffs Policy (P. J. Bassi)
	15:00 - 17:00	(i) Taxation policy for Malawi [illegible]. Simalene (Economic Planning and Development Office)
		(ii) Company Tax Policy to Determine for Private Investment [illegible] (Chancellor College)

Wednesday	9:30 - 10:0	Tax reform agenda (UNDP, finance)
	10:00 - 10:30	Coffee
	10:30 - 12:30	The impact of recent tax reforms on revenue, equity, r. .F. (Fiscal Affairs)
	12:30 - 13:30	Lunch
	13:30 - 15:0	(i) Taxpayer's visible budget for effort (U.K. Inland Finance)
		(ii) Taxpayer effort structure and F model (U.S. Treasury)
	15:0 - 16:30	Break
	16:30 - 17:0	Training needs in Tax Administration . . Desk (UNDP)
		Formation of four discussion
Thursday	Morning	(i) Four discussions
	Mid-day	(ii) Lunch
	Afternoon	(iii) Four discussion continue
Friday		Syndicate four report presentation
		Summary of conclusions and Recommendations by Plenary Group
		Official closure

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Annex III

EFFECT OF [illegible]

Working Group I: The ways and means of improving Training Policy in Malawi.

Observations

(a) There is a need for training at all levels and that certain training facilities exist in the Customs and Excise Department. These facilities were indeed, of modern standard and could meet immediate training needs of the Tax Department. These facilities should be used while long-term plans for developing systematic training schemes for the Tax Department were undertaken.

(b) There was absence of training officers within the Tax administration

Proposals

(a) Development of training facilities along the lines of those of Customs Department and identification of the area of 'need' for training. In particular, use could be made of the existing training facilities at Customs Department. Training to be at all levels and rewards accorded to the successful officers.

(b) The tax administration office to have its own departmental trainers who could also help in designing the curriculum for the proposed training centre. Trainers as a matter of necessity should be in all Government ministries/departments and trainers courses be conducted ocasionally.

Working Group II: The ways and means of improving Taxation Policy, Systems, legislations and administration in Malawi:

(i) Taxation Policy

Two aspects were considered:

(a) Taxation Policy formulation

(b) Relationship between Tax Policy and development plan's goals and objectives.

Observations.

(a) The process of taxation policy formulation was basically well-co-ordinated. The Ministry responsible consulted those other Ministries/Departments and institutions which were likely to be affected by the proposed tax development to canvas their views and opinions. However, there was an apparent lack of thoroughness in the consultative process posing possible dangers of conflicts with other government policies.

Proposals

(a) The widening and reinforcement of the consultative machinery in order to accord adequate opportunity for a thorough formulation of taxation policies.

(b) In principle, there has a recognition that fiscal policy, like other governmental policies, derived its meaning and direction from the aspirations and goals of the society within which it operated taking into account the cultural, legal and political environment and of equal importance the state of development of the art of taxation and the science of government. However, in practice the relationship in question was often enveloped with obscurity.

(b) The Department of Economic Planning and Development be specially assigned with the responsibility to monitor the relationship through comprehensive [illegible] and tax reforms [illegible] the [illegible] the national [illegible] objectives.

(ii) The Tax System

Inherited at independence, the system was characterized by narrow tax base due in part primarily to the predominantly agrarian economy and informal foreign exchange allocation control policy.

Constant review of the tax system with a view to widening its base and making it more orderly, equitable neutral, and development-oriented.

(iii) The Legislations

The provisions of the Taxation Act were generally vague and permitted of arbitrary application. The loopholes in such provisions diminished the progressivity of the tax system.

The establishment of a legal unit within the office of the Commissioner of Taxes staffed with qualified tax lawyers. The functions of the unit to be mainly legal and research.

(iv) Administration

General understaffing of the Tax Department and inadequate tax payer services due to centralized tax administration

(i) Improving the staffing position through selective recruitments and improving the conditions of service of the Tax cadre.

(ii) Decentralization of the services of the Tax administration through establishing regional offices so as to bring the services to the tax-payers and to minimize costs and inconvenience on their part.

Other issues

Public finance in the Ministry of Local Government

Workshop observed and appreciated financial handicap.

* study to assess the capabilities and extent of utilization of the existing sources of funds.